

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
EA-12 FRB-01 INR-10 IO-14 NEA-10 NSAE-00 ICA-20  
OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 OES-09 STR-07 ABF-01 /140 W  
-----006648 291856Z /44

R 291827Z AUG 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 8504  
INFO AMCONSUL CALGARY  
AMCONSUL HALIFAX  
AMCONSUL MONTREAL  
AMCONSUL QUEBEC  
AMCONSUL TORONTO  
AMCONSUL VANCOUVER  
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 04245

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A  
TAGS: ECON, EFIN, CA  
SUBJECT: ECONOMIC DEVELOPMENTS; WEEK ENDING AUGUST 25.

1. SUMMARY. DETAILS OF PM TRUDEAU'S AUGUST 1 ECONOMIC  
POLICY INITIATIVE CONTINUED TO UNFOLD AS FINANCE MINISTER  
CHRETIEN ANNOUNCED FURTHER SPENDING CUTS, CHANGES IN SOCIAL  
PROGRAMS AND PROPOSED CHANGES IN OIL AND NATURAL GAS PRICES.  
MERCHANDISE TRADE REGISTERED CDOLS 98 MILLION DEFICIT IN  
JULY FOLLOWING CDOLS 38 MILLION SURPLUS (REVISED) IN JUNE.  
ANNOUNCEMENT OF TRADE DEFICIT SENT CANADIAN DOLLAR EXCHANGE  
RATE SHARPLY DOWNWARD AND HEIGHTENED EXPECTATION OF INCREASE  
IN BANK RATE. TOURISM DEFICIT NARROWED IN SECOND QUARTER.  
CAPACITY UTILIZATION IN MANUFACTURING INDUSTRIES RATE  
INCREASED IN SECOND QUARTER, DESPITE SLOWER GROWTH OF PRO-  
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DUCTION. NEW ORDERS AND SHIPMENTS ROSE IN JUNE. SHORT  
TERM INTEREST RATES WERE UP SLIGHTLY IN WEEK; BOND PRICES  
WERE STABLE. END SUMMARY.

2. ECONOMIC POLICY: IN TELEVISED SPEECH EVENING OF  
AUGUST 24, FINANCE MINISTER CHRETIEN UNVEILED FURTHER  
DETAILS OF PM TRUDEAU'S AUGUST 1 ECONOMIC POLICY INITIATIVE.

CHRETIEN'S ANNOUNCEMENT FEATURED ADDITIONAL SPENDING CUTS (BRINGING TOTAL REDUCTIONS SINCE AUGUST 1 TO CDOLS 3.7 BILLION), AND SHIFT OF GOC SOCIAL BENEFITS TOWARD LOW AND MIDDLE INCOME GROUPS. GOC ALSO REDUCED EXCISE TAX ON GASOLINE, AND PROPOSED POSTPONEMENT OF OIL PRICE INCREASE SLATED FOR JANUARY 1, 1979 AS WELL AS DECONTROL OF NATURAL GAS PRICES. (SEE OTTAWA 4213)

3. MERCHANDISE TRADE BALANCE: PRELIMINARY STATCAN FIGURES PUT SEASONALLY ADJUSTED (SA) MERCHANDISE TRADE DEFICIT AT CDOLS 98 MILLION IN JULY, DOWN FROM REVISED CDOLS 38 MILLION SURPLUS IN JUNE (PRELIMINARY ESTIMATE OF JUNE TRADE BALANCE WAS CDOLS 93 MILLION DEFICIT). EXPORTS (SA) ROSE 2.6 PERCENT TO CDOLS 4 BILLION IN MONTH, WHILE IMPORTS (SA) ADVANCED BY 6.1 PERCENT TO CDOLS 4.1 BILLION. SHARP RISE IN EXPORTS OF MOTOR VEHICLES AND PARTS TO THE U.S. WAS PARTLY OFFSET BY BROADLY BASED DECLINE IN OTHER ITEMS. IMPORTS OF MOTOR VEHICLES AND PARTS FROM U.S. ALSO ROSE STRONGLY IN JULY. IMPORTS FROM COUNTRIES OTHER THAN U.S. JUMPED BY 22.5 PERCENT IN JULY AND WERE IMPORTANTLY INFLUENCED BY 24 PERCENT RISE IN CRUDE OIL IMPORTS.

4. IN THREE MONTHS ENDING IN JULY, EXPORTS TOTALLED CDOLS 12 BILLION, A 9 PERCENT DROP FROM LEVEL OF PRECEDING THREE MONTHS. OVER SAME PERIOD, IMPORTS DECLINED BY ONLY 1.5 PERCENT TO CDOLS 11.9 BILLION WITH RESULT THAT TRADE SURPLUS IN THREE MONTHS TO JULY WAS CDOLS 255 BILLION, COM-  
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PARSED WITH CDOLS 1.3 BILLION SURPLUS IN THREE MONTHS TO APRIL. AS OF JULY, TRADE SURPLUS WAS RUNNING AT SEASONALLY ADJUSTED ANNUAL RATE OF CDOLS 3.3 BILLION.

5. TRAVEL BALANCE: ACCORDING TO STATCAN REPORT, TRAVEL DEFICIT WAS CDOLS 429 MILLION IN SECOND QUARTER, COMPARED WITH CDOLS 923 MILLION IN FIRST QUARTER AND CDOLS 352 MILLION IN SECOND QUARTER, 1977. RECEIPTS IN SECOND QUARTER LEAPED 173 PERCENT FROM FIRST QUARTER TO CDOLS 596(&.8))89., WHILE PAYMENTS DECLINED BY 9.7 PERCENT TO CDOLS 1.0 BILLION.

6. EXCHANGE RATE: CANADIAN DOLLAR EXCHANGE RATE SLUMPED WITH NEWS OF JULY TRADE DEFICIT, FALLING TO 87.37 U.S. CENTS ON FRIDAY, AUGUST 25, COMPARED WITH PREVIOUS DAY'S CLOSE OF 87.78 U.S. CENTS. NARROWING OF TRAVEL DEFICIT

IN SECOND QUARTER AND UNVEILING OF NEW GOC POLICY INITIATIVES APPEARED TO HAVE MINIMAL IMPACT ON EXCHANGE RATE. INCREASED MOMENTUM OF DOLLAR'S DECLINE FANNED SPECULATION THAT BANK OF CANADA (BOC) WILL ACT TO BOLSTER EXCHANGE

RATE BY RAISING BANK RATE.

7. ECONOMIC INDICATORS:

-- INDEX OF REAL DOMESTIC (SA) PRODUCT STOOD AT 132.4  
(1971=100) IN JUNE, A RISE OF 0.5 PERCENT FROM MAY AND OF  
3 PERCENT FROM JUNE, 1977. SERVICE INDUSTRIES GAINED 0.8  
PERCENT IN JUNE AND LED GROWTH OF OUTPUT, AS PRODUCTION OF  
GOODS ROSE BY ONLY 0.1 PERCENT. MINING AND WHOLESALE/  
RETAIL TRADE SHOWED SIGNIFICANT INCREASES IN MONTH. MANU-  
FACTURING OUTPUT FELL BY 0.3 PERCENT. RDP ROSE AT SEASON-  
ALLY ADJUSTED ANNUAL RATE (SAAR) OF 3.4 PERCENT IN SECOND  
QUARTER, DOWN FROM FIRST QUARTER RATE OF 6.8 PERCENT.  
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-- INDEX OF INDUSTRIAL PRODUCTION (SA) STOOD AT 129.8  
PERCENT (1971=100) IN JUNE, A 0.5 PERCENT RISE FROM MAY.

PATTERN OF GROWTH IN MONTH MIRRORED THAT OF RDP, AS  
MOVING OUTPUT ROSE AND MANUFACTURING FELL. INDUSTRIAL  
PRODUCTION ROSE 4.4 PERCENT (SAAR) IN SECOND QUARTER,  
DOWN FROM FIRST QUARTER RATE OF 8.9 PERCENT.

-- ACCORDING TO STATCAN ESTIMATES, RATE OF CAPACITY  
UTILIZATION IN MANUFACTURING ROSE TO 86.4 PERCENT IN  
SECOND QUARTER FROM FIRST QUARTER LEVEL OF 84.3 PERCENT,  
DESPITE TAPERING OFF IN GROWTH OF PRODUCTION. IN NON-  
DURABLE INDUSTRIES, CAPACITY UTILIZATION RATE WAS 83.6  
PERCENT IN SECOND QUARTER, COMPARED WITH 80.1 PERCENT IN  
FIRST. NON-DURABLES INDUSTRIES SHOWED INCREASE FROM 88.5  
PERCENT TO 89.2 PERCENT. IN SECOND QUARTER, UTILIZATION  
RATE STOOD AT 8.2 PERCENT BELOW "PEAK CAPACITY" RATE  
ATTAINED IN FIRST QUARTER OF 1974.

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-- MANUFACTURERS' SHIPMENTS (SA) WERE CDOLS 10.8 BILLION  
IN JUNE, A 3.6 PERCENT INCREASE FROM REVISED MAY LEVEL.  
DURABLES SHIPMENTS CONTRIBUTED IMPORTANTLY TO ADVANCE,  
RISING BY 6.6 PERCENT TO CDOLS 5.1 BILLION. NEW ORDERS  
(SA) WERE UP BY 3.6 PERCENT IN MONTH TO CDOLS 11.1 BILLION,  
AND UNFILLED ORDERS ROSE BY 1.9 PERCENT TO CDOLS 11.9  
BILLION. RATIO OF OWNED INVENTORIES TO SHIPMENTS WAS  
1.81:1 IN JUNE, DOWN FROM REVISED LEVEL OF 1.86:1 IN MAY.

8. CAPITAL MARKETS: SHORT TERM INTEREST RATES SHOWED  
LITTLE CHANGE IN WEEK AS BOC CONTINUED TO MODERATE UPWARD  
PRESSURE ON RATES THROUGH OPEN MARKET PURCHASES OF TREASURY  
BILLS. INTEREST RATE ON THREE MONTH TREASURY BILLS WAS  
8.81 PERCENT IN WEEK, COMPARED WITH 8.80 PERCENT PREVIOUS  
WEEK. BOND PRICES WERE STABLE. ENDERS

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
**Draft Date:** 29 aug 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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